EDITORIAL RESEARCH REPORTS

1959
Vol. I

# INDIA'S HARD YEARS

by

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No. 16
Apr. 29

Editorial Research Reports
1156 Nineteenth Street, N.W.
Washington

# INDIA'S HARD YEARS

INDIA, whose birth as an independent nation virtually coincided with commencement of the cold war, has been the leader of those nations which have chosen to maintain strict neutrality in the great struggle between East and West. Basically democratic in forms of government and habits of thought, India nevertheless has found it prudent not to commit itself to one side or the other. In that position it has felt free to accept from both the free world and the Soviet bloc the economic assistance that it badly needs to expand production and improve the condition of its people.

Red China's recent ruthless suppression of the revolt in Tibet, trans-Himalayan land whose autonomy Peking was pledged to respect, and the flight of the Dalai Lama to India embarrassed the government at New Delhi and shook popular support for the policy of neutralism. Prime Minister Jawaharlal Nehru, speaking in parliament on March 30, agreed that India wanted the people of Tibet "to progress in freedom," but he cautioned that it was "important for us to have friendly relations with the great country of China." [1] Later, on April 27, Nehru said "a tragedy" was "being enacted in Tibet," and he was "greatly distressed" by China's leveling of "fantastic" charges against India.

Consolidation of Communist China's power in a region close to India's borders may require New Delhi to hold official words and statements as closely as possible to the middle line. But it may also cause India to try to strengthen its defenses, and perhaps alter its policy of not accepting foreign military aid. Whether stepped-up military assistance, if in fact sought and given, will mean a corresponding reduction in economic assistance from the free world cannot be foretold. However, the need for eco-

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[1] Nehru, speaking on March 30 of India's cultural and religious contacts with Tibet, said: "Vast numbers of pilgrims from here go there; some come from Tibet to India. . . . Apart from that, . . . large numbers of people in India venerate the Dalai Lama, respect him very greatly. . . . Because of these contacts our reaction to anything that happens in Tibet is bound to have very deep [effects]."

nomic aid will continue undiminished. Its availability from the free world, not only to India but also to other nations of South and Southeast Asia, may be especially important at a moment when events in Tibet have given sharp reminder of the hazards involved in getting mixed up with Communists.

#### Free World Stake in India's Economic Progress

Conversion of Russia under the Communists from a backward nation into a world industrial power within the span of a single generation had strongly impressed the countries of Asia recently emerged from colonial status, because they wanted most of all to raise living standards and to do it in a hurry. For the same reason, Red China's "great leap forward" pointed up for other Asians the Communist system's potential for spectacular production gains in an economically lagging country where the masses are largely illiterate and have had no experience with representative institutions.

Whether China's action in Tibet will permanently dim the luster of these examples may depend to a large extent on India's progress against poverty under a democratic governmental system. India, most populous of the non-Communist countries of Asia and a leader in the long struggle to throw off the colonial yoke, enjoys wide prestige. Both India and Red China, though employing radically different means, are working toward the same end—to increase agricultural and industrial production as rapidly as possible. China has organized its people into communes and resorted to other forms of forced labor.[2] India has adopted a degree of socialism but at the same time adheres scrupulously to representative political institutions and to guarantees of civil liberties and property rights. The results attained in terms of production and living standards are inevitably destined for critical comparison.[3]

Rep. Chester Bowles (D-Conn.), ambassador to India from 1951 to 1953, said in an address on April 17 that "Any effort to provide an alternative to Communist totalitarianism in Asia must . . . have India at its heart." Bowles went on to say: "Should democratic India be successful in

[2] See "Red China's Communes," *E.R.R.*, 1959 Vol. I, pp. 214-215.

[3] Comparison may be made also with the accomplishments of three non-Communist countries of Asia (Burma, Pakistan, Thailand) which last year accepted military dictatorship as a more expedient instrument than democracy for achieving a modern economy. See "Revolutionary Ferment and Democratic Processes," *E.R.R.*, 1959 Vol. I, pp. 88-92.

building industry and improving the welfare of its villages, she will create a striking alternative to the totalitarian Chinese example. Manifest failure or indifferent success in India over the next decade will leave Communist China unchallenged and probably supreme."

### Relation of Population to Economic Advance

Before India attained its independence in 1947, the dominant Congress Party declared in an election manifesto: "The content of political freedom must be both economic and social. The most vital and urgent of India's problems is how to remove the curse of poverty and raise the standard of the masses." Action to that end is conditioned by the heavy pressure imposed on the country's resources by the rapid growth of its population.

India's population, estimated last year to exceed 380 million, is more than twice that of the United States, and the living standards of the Indian people are among the lowest in the world. Development of the nation's resources at present is barely keeping pace with the growth of population. Government-sponsored promotion of birth control began in 1951 as a part of the first five-year plan and has been continued under the second five-year plan. But little headway has been made; the annual net population increase still amounts to six million. Even if birth control were practiced more widely, it alone could not solve India's economic problems. According to Lawrence K. Rosinger, long a student of Asian affairs, overpopulation should not be singled out as the root cause of Indian poverty.

> Census statistics show that the percentage growth of the population of the Indian subcontinent since 1871 has not been unusually high for modern times, but that . . . the absolute increase in numbers has been huge because of the massive human base from which the expansion proceeds. It should be noted, however, that while this population growth was occurring, Indian agriculture continued to operate in a pre-modern fashion and Indian industry underwent only a limited degree of modern development. The situation has not been one in which a rapidly expanding economy has been outstripped by population increases, but rather an example of a sluggish economy moving forward at a snail's pace.[4]

Thus India's chief need is to force the pace of agricultural production and of industrialization. The country is essentially agricultural, but it has important mineral re-

[4] Lawrence K. Rosinger and associates, *The State of Asia* (1951), p. 445.

sources, notably manganese, coal, and iron ore deposits. In addition, its mining industries, steel mills, textile mills, and other manufactures in existence at the time of independence have provided a valuable nucleus for further industrial development.

### Public and Private Sectors of the Economy

The Congress Party endorsed in the beginning a semi-socialist program which envisioned a mixed economy divided into so-called public and private sectors. Under the industrial policy announced by the government in 1948, the state was to develop and regulate industry in order to ensure effective use of the country's resources, balanced development of large and small-scale industry, and proper regional distribution of industry.

The public and private sectors were defined in Indian parliamentary resolutions.[5] Three industrial categories, not regarded as rigid, were established: (1) *Exclusive state monopolies*—arms and ammunition, atomic energy, railways and airlines, and 14 other industries; (2) *industries due to come progressively under state ownership*—aircraft manufacture, coal, iron and steel, and certain others; and (3) the *private sector* covering the remainder of the industrial field.

With regard to the second category, the policy is gradually to enlarge the public sector to include public utilities, additional strategic industries, and essential industries whose investment needs can be met only by the state. However, the government does not propose to nationalize existing private companies in these industries; it simply plans, as demand increases or the situation requires, to establish new government-owned companies which will operate alongside the private companies.

### Need for Foreign Economic and Military Aid

It has been said that underdeveloped countries outgrow a need for foreign capital only when they reach a state variously described as "self-sustained growth," "economic take-off," or "national breakthrough." As one writer has put it:

> Stagnant economies are characterized by low rates of investment; . . . economies devoting less than, say, 12 to 15 per cent

[5] Resolution adopted in April 1948 and reaffirmed by a New Industrial Policy Resolution introduced by Prime Minister Nehru on April 30, 1956.

> of their national income to productive investment are not likely to achieve much advance. Above that figure they have the chance of achieving what might be termed a "national breakthrough"— in other words, the achievement of enough dynamism for the process of high investment to become self-sustaining, simply because, year by year, the resources available to provide savings over and above popular consumption are tending to increase. Capital is thus the key to growth.[6]

Per capita income in India amounts to only $57 a year, and 63 per cent of average family expenditures goes for food. Necessarily, as Chester Bowles has observed, "Most of any increase in the income of the people will be spent on consumer goods." [7] India obviously is not now in position to accumulate the savings needed for the capital formation required to expand its economy. Foreign capital has to be sought for that purpose.

Defense needs indirectly increase the need for foreign capital. For while the Indian government has so far declined to request outside military aid, a steadily increasing proportion of the country's scarce resources has been devoted to defense. Indian defense expenditures rose from $492 million in 1957 to $650 million in 1958 and may reach $675 million this year. And the share of the total used to buy imported weapons draws down foreign exchange reserves.

Most observers agree that American military aid to Pakistan has been largely responsible for the increase in India's defense spending. New Delhi has strongly resented U.S. arming of Pakistan, for in Indian eyes Pakistan's military establishment is more a threat to India than a shield against Communist aggression.

### Five-Year Plans for Economic Development

India began in 1951 to experiment with economic planning on an elaborate scale. The first five-year plan, which ran through March 1956, called for expenditures of nearly $5 billion in the public sector of industry and anticipated an approximately equal outlay by enterprises in the private sector. According to the Government of India Planning Commission, the first plan was conceived as a modest attempt at solving immediate problems on a priority basis.[8]

[6] Commander Sir Robert Jackson, "An International Development Authority," *Foreign Affairs*, October 1958, p. 55.

[7] Chester Bowles, *Ideas, People and Peace* (1958), p. 50.

[8] Government of India Planning Commission, *Second Five-Year Plan* (1956), pp. 2, 58.

It stressed expansion of agricultural production by means of irrigation and other projects. Only about 7 per cent of the budget was allotted to expansion of industry. The results were considered reasonably satisfactory.

The second plan (running to March 31, 1961) called for an outlay of $10 billion in the public sector, double the amount so allocated in the first plan. Spending recommended for the private sector in the second plan totaled $5.4 billion, or one-half the amount budgeted for the public sector. The new plan reflected a shift of emphasis to industrial expansion, mainly in the public sector.

Goals of the plan cannot be met in full without large additional amounts of foreign capital. The plan has been criticized as too ambitious, but Indian planners insist that it is necessary to think in terms of the long-range dividends promised by a big and bold program of development. Nehru said last Oct. 6 that "If you look at the . . . urgent, vital, essential needs of the situation, then our plan is a feeble plan, far from being too big."

The wide scope of the second five-year plan has usually been justified by reference to the pump-priming concept: In proportion as India develops a modern industrial base, the means of increasing crop yields and stimulating growth of small industries will be provided. Only thus, say champions of the plan, can the whole Indian economy gain the momentum needed for self-sustained expansion sufficient not only to keep pace with the country's population growth but also to raise its standards of life.

Balance-of-payments trouble began to affect execution of the plan by the end of its first year in the spring of 1957. An excess of imports over exports was causing a shortage of foreign exchange with which to pay for additional imports needed to carry out planned investment. Various factors, then and later, swelled outlays for imports and cut into revenue from exports. Blocking of the Suez Canal in the autumn of 1956 handicapped India's export trade. Inflation abroad pushed costs of imports above what had been estimated. Poor harvests compelled an unplanned increase in food imports.

But it has been mainly heavy importation of capital goods that has eaten into India's foreign exchange reserves. Official statements have not disclosed how this embarrassingly

lively expansion of investment has been divided between the public and private sectors of the economy. Massachusetts Institute of Technology's Center for International Studies analyzed imports into India during the first two years of the second five-year plan (to the spring of 1958) and came to the conclusion that capital goods shipped in on private account were primarily responsible for the foreign exchange shortage.[9] Planned investments in the public sector have now been reluctantly cut back (in two bites) from $10 billion to $9.5 billion. Estimates of investment in the private sector have not been changed.

## Soviet and Free World Aid to India

SINCE INDEPENDENCE, the Republic of India has received a cumulative total of roughly $2.6 billion worth of aid of various kinds from foreign sources. The bulk of it has been extended since the second five-year plan started in April 1956. The United States has contributed more than one-half of the total. After Stalin died in 1953, the Soviet Union unrolled a trade-and-aid program for underdeveloped countries. In Asia and Africa the program has emphasized economic development aid rather than trade. In the case of pivotal India, the Communist economic offensive dates from 1955. Aid to India from the Soviet bloc has now reached significant proportions.

### Extent and Nature of Aid From Soviet Bloc

Although the $304 million in economic aid so far received by India from Communist sources seems small in comparison with a total of $1.6 billion from the United States, the contrast is somewhat misleading. Soviet bloc assistance has been concentrated in a period of four years, whereas assistance from this country has been spread over ten years. During the three-year period, 1955-1957, economic aid from the Soviet bloc amounted to 31.5 per cent of all foreign aid to India.[10]

"Impact projects," primarily in heavy industry, set the style of Communist economic aid to India. Credits are

[9] M. F. Millikan and W. W. Rostow, "Foreign Aid: Next Phase," *Foreign Affairs*, April 1958, p. 432.

[10] Michael Sapir, *The New Role of the Soviets in the World Economy* (Committee for Economic Development, 1958), pp. 21, 33.

offered for spectacular undertakings in strategic industries such as steel, oil exploration, manufacture of heavy machinery, and pharmaceuticals. Progress of the huge Soviet-built steel plant at Bhilai in central India has received wide publicity. The plant is represented as a kind of monument of Soviet friendship for India. The State Department has observed that the Communist aid pattern has "pleased Indian officials because of the high priority placed on heavy industry in the current Second Five-Year Plan," and because it has tended "to concentrate . . . aid on a limited number of fairly large projects with visible appeal." [11]

Most of the Soviet bloc credits to India have been extended by the U.S.S.R., Czechoslovakia, and (in 1958) Rumania. It is worth noting that Red China has contributed no economic help to India. Although a few Communist Chinese missions, including experts in agriculture, forestry and salt, have visited the country, they went there only to study and observe.

The Bhilai steel plant represented the Soviet Union's first major offer of economic and technical assistance to any non-Communist country. The U.S.S.R. undertook, in an agreement signed in February 1955, to provide the equipment and engineering services for construction of the plant. Involved is a Soviet credit of about $132 million, bearing interest at 2.5 per cent and repayable in 12 annual instalments in rupees to be used by the U.S.S.R. to buy goods in India. This arrangement is typical of Soviet development assistance, which is usually offered in the form of loans instead of grants but at low interest rates with repayment in goods instead of currency.

Capital construction agreements are the central feature of the Soviet aid program for underdeveloped countries. According to Prof. Joseph S. Berliner of Syracuse University:

> The Soviet government . . . agrees to finance the construction under medium- or long-term credits . . . [and] to train the engineering and skilled labor personnel of the recipient country to operate the plant and, on completion of the construction, to turn the plant over to the recipient country for operation. The most celebrated example of this kind of transaction is the steel mill . . . at Bhilai.[12]

[11] Department of State, *The Sino-Soviet Economic Offensive in the Less Developed Countries* (1958), p. 93.

[12] Joseph S. Berliner, *Soviet Economic Aid* (1958), p. 31.

Thus technical assistance, tied to provision of capital goods, is an integral part of the Communist aid program. In the last two years hundreds of engineers and technicians from the Soviet bloc have been sent to India. Furthermore, under this Soviet version of the Point Four program, hundreds of Indians are receiving technical training in India and supplementary training in the U.S.S.R.

U.S. Loans to India and Sales of Surpluses

American aid to India has consisted in only relatively minor part of grants, mostly in connection with technical assistance programs. Close to $1 billion of the $1.6 billion aid total has been in the form of loans or of sales of surplus commodities. Loans have been both "hard" and "soft"; that is, repayable respectively in dollars or in rupees. Surplus commodity sales have been for rupees, and a large share of the rupee proceeds has been loaned back to India for economic development.

The International Cooperation Administration, which administers the mutual security program, made three development assistance loans to India totaling $130 million, repayable in rupees, in the years 1955-1957. The chief source of long-term soft loans now is the Development Loan Fund, established in July 1957 to make capital assistance available to underdeveloped countries in a form that would not aggravate their foreign exchange problems. The D.L.F., in the words of the official handbook on mutual security, is "authorized to extend only loans, guaranties and other forms of financing, excluding grants."

Loan commitments to India totaling $175 million at the beginning of 1959 made up a far larger sum than had been allotted to any of the 19 other countries then scheduled to receive D.L.F. loans.[18] Proceeds of the loans to India were to be used for railway improvements, expansion of electric power capacity, and purchases of steel and machinery. Amounts repaid in rupees may be re-loaned to India for other development projects. Further aid in the form of new American loans in dollars now depends largely on what Congress does about refilling the treasury of the Development Loan Fund. The Eisenhower administration asked $700 million for that purpose for fiscal 1960 and $225 million for the remainder of the fiscal year ending

[18] The second largest D.L.F. loan total was a commitment of about $70 million to Pakistan.

June 30, 1959. The House voted only $100 million in supplemental funds for fiscal 1959, but the Senate Appropriations Committee on April 17 recommended $200 million. Chairman Fulbright (D-Ark.) of the Foreign Relations Committee has proposed that D.L.F. be given $7.5 billion to lend in equal annual shares over the next five years.

The United States has made only two hard (repayable in dollars) loans to India—a specially authorized loan of $190 million in 1951 to finance purchase of two million tons of wheat to avert a serious threat of famine, and an Export-Import Bank loan of $150 million in 1958 to finance purchase of heavy capital goods for irrigation, power, mining, transport and other projects. Export-Import Bank credits may be used only to finance purchases in the United States, and high prices in this country kept India from seeking such aid until last year.

To help meet recurrent food shortages, the United States in the past three years has sold India about $664 million worth of surplus agricultural commodities. The sales agreements, concluded under the Agricultural Trade Development and Assistance Act of 1954 (Public Law 480), provided for payment in rupees. Most of the rupee proceeds, as noted, are loaned back for Indian economic development projects; another share is reserved for payment of U.S. expenses in India, and a third share is returned to India in the form of outright development grants, as authorized by Public Law 480. The surplus disposal program thus generates a special form of loan-and-grant economic aid.[14]

### American Provision of Technical Assistance

American programs of aid to India have been operating longer, represent a much larger expenditure, and have been far more diversified than Soviet aid programs. The contrast is well illustrated in the field of technical assistance. The U.S. and Indian governments signed the first Point Four technical assistance agreement in December 1950, and it was followed in January 1952 by a technical cooperation agreement.

A recent Indian government report on the technical assistance program, covering all joint activities up to July 1958, listed the American financial contribution at $518

[14] The United States has made similar sales to India of surplus wheat and cotton under a section of the Mutual Security Act of 1954, but totals have been small in comparison with those of P.L. 480 sales.

million (roughly 60 per cent in loans and 40 per cent in grants). The United States has supplied specialists to train Indian technicians and has purchased supplies and equipment for demonstration, training and research purposes. A report by the Indian finance ministry pointed out that the 1952 agreement provided for "joint projects laying emphasis on agricultural development."

> It was agreed that the U.S.A. would pay for goods and equipment imported from abroad and a matching contribution would be made by the Government of India for taking care of the rupee expenditure within the country. . . . Stress was laid on joint projects in the fields of community development, tube wells, river valley development, fertilizers and steel for agricultural purposes. Up to 1953-54 these were the main activities for which external assistance from the U.S.A. was utilized.

The scope of American technical assistance was widened subsequently to include diverse projects in health and sanitation, transportation, industry and mining.

### World Bank Loans for Development Projects

The International Bank for Reconstruction and Development (World Bank) has played a role second only to that of the United States in aiding India. Over the past ten years the bank has made 20 hard loans (repayable in the currency borrowed), in an aggregate amount of about $528 million, to the Indian government and to private Indian borrowers whose obligations the Indian government has guaranteed. More than 40 per cent of the total involved was earmarked for railroad improvements, and the remainder was divided among agricultural, electric power, industrial, airline, port and multi-purpose projects.

The World Bank is entirely a free world institution as no Communist countries are among its members or provide any of its capital. Subscriptions of member governments make up a large part of the bank's capital. Under a formula which bases the size of subscriptions on the extent of the resources of member countries, the United States has supplied about 31 per cent of the authorized capital.[15] Private capital also is becoming an increasingly important source of funds for World Bank loans. Commercial banks take participating shares in World Bank loans, and the World Bank obtains capital for lending by floating its own obligations in the security markets. Eugene

[15] India, with a subscription of $400 million, is the bank's fifth largest shareholder.

R. Black, the institution's president, pointed out in a recent article in a magazine published in Bombay:

> The feature which distinguishes the Bank from all other international agencies is the large extent to which it depends on the confidence and support of private investors around the world. It now has the equivalent of $1,845 million in bonds and notes outstanding in six currencies and in some 30 countries. With the greater part of its paid-up subscriptions already used in its lending, the further expansion of the Bank's operations depends on its ability to raise additional funds in the capital markets.[16]

By these processes the World Bank channels to its underdeveloped member countries funds from private as well as governmental sources in its richer member countries.

Indian economic development has become one of the chief concerns of the World Bank. Its outstanding loans to India now exceed those to any other country by a substantial amount; disbursements under the loans are currently running at an annual rate of over $100 million. The London *Economist* noted on Oct. 11, 1958, that "The Bank in recent months has been making an especially large contribution in Asia, and above all in India, which has taken one-quarter of the $1,076 million lent in the past fifteen months."

## Foreign Aid in the Long-Term Picture

A COMMON MOTIVATION underlies extension of economic aid to India by free world and Communist countries. India occupies a strategic geographic position and holds a strong position of leadership in South Asia. Each side in the world power struggle accordingly seeks to gain its cooperation, or at least prevent it from allying itself with the other side. Each wants the support of pivotal India in order to strengthen its own power position in that part of the world. To obtain India's support, each side offers to help India obtain what it most wants—economic development to make possible a higher standard of living.

Hence the cold war importantly affects the extent and nature of economic aid programs in uncommitted India. Berliner has said on this aspect of the economic cold war:

[16] Eugene R. Black, "Finance for the Growth of India," *Commerce*, December 1958.

> Perhaps the Soviet leaders are not much clearer in their own minds about the precise results to be hoped for from the aid programs than the Western governments are. . . . The United States is committed to the view that the sponsorship of economic growth will help [the uncommitted countries] develop and strengthen democratic traditions and processes, and thus support the position of the non-Communist nations in world affairs. The U.S.S.R. hopes for and expects the eventual triumph of communism in those same countries, and presumably believes that support of economic development is one means to that end.[17]

The Syracuse University professor raises the question of whether the United States or the U.S.S.R., one or the other, may not be pursuing mistaken policies, for he points out that contradictory ends are not likely to be achieved by the same means.

### Controversy Over Best Methods of Giving Aid

Although there is general agreement in the free world on India's need for economic aid, there is also considerable controversy over how the program should be handled to advance Western interests most effectively. The disagreement is in part doctrinal—whether socialism or private enterprise is better suited to promote economic growth in India. Extension of technical assistance is widely accepted as sound, but some persons object to supplying capital to promote government business enterprises in the public sector of the Indian economy.

Strong supporters of economic aid to India advocate long-range, large-scale government-to-government assistance on a grant basis with no attempt to influence how the foreign capital is utilized by Indian authorities. At the opposite end of the spectrum are those who say that the magnitude of investment contemplated by Indian planners is in the realm of dreams. They assert that World Bank and Export-Import Bank hard loans, and loans from private sources, will supply as much capital as India can readily absorb, and that such operations will best promote Indian economic progress and stability.

In any case, free world economic aid to India in some form may be expected to continue for a number of years. Two factors now emerging seem likely to affect the situation—an expressed need for more coordination of free world aid programs and the increasing importance of private investment in aid programs.

[17] Joseph S. Berliner, *op. cit.*, pp. 17, 24.

### Coordination of the Free World's Aid Programs

During the past year the multi-national, long-term approach to the whole problem of economic development aid has won increasing support in the United States.[18] Sens. John F. Kennedy (D-Mass.) and John Sherman Cooper (R-Ky.) recently introduced a resolution in the Senate calling for a free world mission "to consult with India on the detailed possibilities for joint action to assure the fulfillment of India's second five-year plan and the effective design of its third plan." Kennedy, who co-sponsored a similar resolution last year,[19] said when he offered the current resolution on Feb. 19:

> The case for such an international consortium is even more compelling this year. . . . Canada, Great Britain, Germany, and Japan would . . . have an interest in joining in a frank and realistic exchange and survey of India's future needs; and in making a proportional sacrifice and commitment to meet those needs. Such a mission . . . would be uniquely effective in . . . encouraging the Indians in their association with the West, stimulating effective, efficient plans and appropriate lending criteria.
>
> Such a donors' club, under the sponsorship of the World Bank, would not cut athwart any existing institutions. On the contrary, it would help to harmonize the individual aid programs of the individual nations, without trying to build a new bureaucratic superstructure.

The donors' club advocated by Kennedy and Cooper already exists in embryonic form. During the past year the World Bank, in addition to extending loans to India out of its own capital, acted as a broker loosely coordinating aid-to-India plans of five member countries: Canada, Great Britain, Japan, United States, and West Germany. A conference attended by representatives of the five nations and of the bank was held in Washington in August 1958. The conferees discussed India's continuing foreign exchange deficit and tentatively agreed on plans to raise around $380 million to help finance the country's five-year plan to the end of the Indian fiscal year last March 31.

This was the largest multi-nation economic aid plan ever drawn up for an underdeveloped country. It represented to some extent a consolidation of loans previously arranged. Of the $380 million total the allotments of the World Bank ($100 million), Great Britain ($113 million), Germany ($40

[18] See "Regional Development in Foreign Lands," *E.R.R.*, 1958 Vol. II, pp. 735-737.

[19] The resolution was attached to the Mutual Security Act of 1958 in the Senate but deleted in conference. The Department of State held that it would be a mistake to single out one country for a pledge of U.S. assistance.

million) and Japan ($10 million) were in the form of hard loans; that of the United States ($100 million from D.L.F.) in the form of a soft loan; and that of Canada ($17 million) partly in the form of a grant.

The five-nation consortium met a second time under World Bank auspices in March 1959. India reportedly asked the five creditor nations for $700 million during the remaining two years of the second plan (through March 1961) to bridge the foreign exchange gap and finish the projects undertaken. Because Congress had not yet acted on foreign aid appropriations, the American negotiators were not in position to make commitments. The World Bank therefore was unable to make definite announcement that India's request would be granted. A statement of March 17, 1959, disclosed only that "The meeting took note of the improvement in the Indian situation since August, and in particular in the foreign exchange position." It added that "During the coming year India can reasonably expect to maintain the momentum of its development program, and meet essential maintenance needs of the economy, without throwing undue strain upon its external reserves."

### Influence of Foreign Capital on Indian Planning

It is widely anticipated that loans will be made to help India complete the current five-year plan. World Bank policy is to try to persuade New Delhi to accept certain conditions in connection with further loans and to modify its economic planning to make it conform to the country's most urgent needs. Bank circles feel that international credit will thereby become more readily available and will better serve Indian requirements.

This attitude reflects the fact that further expansion of the World Bank's lending operations now depends on its ability to borrow in the world's capital markets. The bank's bond issues in 1957-58 totaled $650 million, by far the largest amount in a single year. Rather more than half of the borrowing was done in the United States, and a further large slice in Germany. Commercial bank participations in World Bank loans included $15 million by nine American and Canadian banks in a loan of $32.5 million to Tata Steel of India.

In its capacity as a custodian of Western private capital, the World Bank has been somewhat critical of India's second

five-year plan. Bank President Black wrote in December 1958:

> When new lending is under consideration [the World Bank] undertakes a review of a country's economic situation and of the government's economic policies in so far as they affect repayment prospects. . . . By forming a judgment on these complex questions, the Bank believes that it can not only ensure the most fruitful use of its own funds but also help member countries to avoid mistakes for which they might have to pay dearly in later years. . . . It was in this connection that, earlier this year, the Bank sent a mission to India to study the progress made under the Second Five-Year Plan. Among the conclusions submitted . . . was that, in view of the acute strain already imposed upon the balance of payments, efforts should henceforth be concentrated upon completing projects in process before large new investments were embarked upon.[20]

The bank's report on India emphasized also that agricultural development should be accorded a higher priority and that a determined effort should be made to obtain a breakthrough in agricultural production, without which all the plans for raising India's living standards must ultimately fail. It warned that "Not least among the dangers to be guarded against in the present stage of India's development is the pursuit of welfare at the expense of efficiency."[21]

It is noteworthy in this connection that Pakistan decided last February, on the advice of German experts, including Minister for Economic Affairs Ludwig Erhard, to suspend construction of major industrial plants in order to consolidate industrial gains already achieved. The purpose was also to make it possible to devote more attention to agricultural development, especially of food crops. Erhard said at a press conference in New Delhi last October that what India really needed was a large number of small and medium-sized industrial enterprises employing 200 or 300 workers apiece. He stressed the importance of allowing leeway for development of private initiative, though conceding the need for planned economy in an underdeveloped country.

Concern over New Delhi's economic policies, in the United States and other free world nations, has centered particularly on the extent of the planned foreign exchange deficit and the extent of industrial expansion in the public sector

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[20] Eugene R. Black, "Finance for the Growth of India," *Commerce*, December 1958.

[21] Excerpts from report of World Bank's mission to India, not officially released, were made public in a dispatch to the *Manchester Guardian* from New Delhi on Sept. 16, 1959.

of the Indian economy. The question is raised as to whether the emphasis on government-operated heavy industry will actually help to raise living standards, or whether it will produce economic dislocations tending in the long run to defeat Western and favor Communist purposes in India.

Indications are that pressure from the free world is beginning to take effect in New Delhi. Indian planners will perhaps refuse to make further reductions in the public sector's "core" projects under the second five-year plan. But the third five-year plan (1961-66) may turn out to be less ambitious than its immediate predecessor. Sharokh Sabavala, Indian correspondent for the *Christian Science Monitor*, reported on Dec. 26, 1958: "With promises of large-scale aid now firmly secured, New Delhi is settling to a realistic appraisal of the country's economy. During the course of this appraisal, officials say it is becoming clear that the present truce between the private and public sectors of the country will have to be made permanent; that both the Indian government and private enterprise will have to seek increasingly close collaboration with investing capital potentially available in Europe and the United States; and that the whole question of fiscal and other relief needed to attract foreign capital will have to be re-examined from scratch."